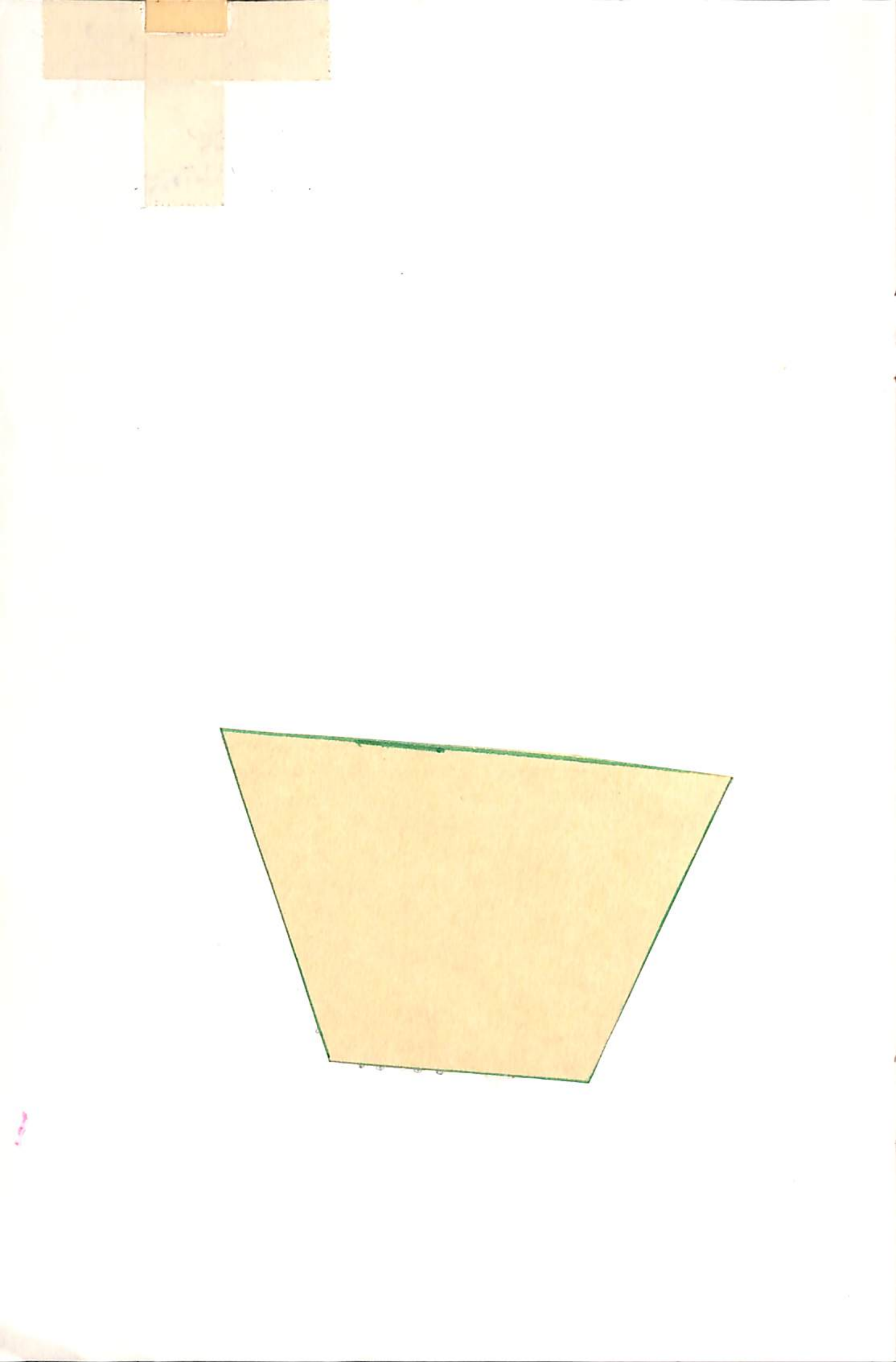

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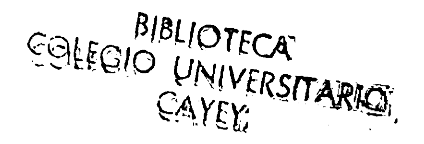
DISCURSO PRONUNCIADO POR EL SECRETARIO DE HACIENDA, DON JORGE FONT SALDAÑA, EN TORNO A LA POLITICA FISCAL CONTRIBUTIVA



Palabras del Hon. Jorge Font Saldaña, Secretario de Hacienda, ante la Asamblea Anual General de la Cámara de Comercio de Puerto Rico, celebrada en el Hotel Sheraton, de San Juan, el 11 de febrero de 1967.

Palabras pronunciadas por el Hon. Jorge Font Saldaña, Secretario de Hacienda, ante el Capítulo de Puerto Rico de la Asociación Nacional de Contadores el 4 de agosto de 1965.





El 11 de febrero de 1967, la Cámara de Comercio de Puerto Rico hizo un público reconocimiento al Hon. Jorge Font Saldaña, Secretario de Hacienda, por sus ejecutorias en el desempeño de su cargo y por sus relaciones cordiales con la industria y el comercio. Durante el homenaje que le ofrecieron, celebrado en el Hotel Sheraton el Secretario de Hacienda pronunció el discurso, que a continuación sigue.

Señor Presidente, señores directores y socios de la Cámara de Comercio de Puerto Rico, distinguidos invitados, señoras y señores:

Me halaga y me honra que ustedes me hagan este reconocimiento público por mis ejecutorias como Secretario de Hacienda y por la cordialidad en que se han mantenido mis relaciones con la industria y el comercio. Todo reconocimiento estimula y conforta. Cuando proviene de la Cámara de Comercio de Puerto Rico, institución de sólidos quilates y largo historial en la vida económica y social de Puerto Rico, la expresión adquiere una especial significación. Las arduas funciones de mi cargo no siempre han de concordar con los intereses específicos de un sector particular. Unas veces, los objetivos inmediatos pueden ser comunes. Otras, sin embargo, la política contributiva puede dar la impresión de afectar adversamente a un segmento de nuestra economía, aunque a largo plazo tenga el propósito de impulsar el bienestar colectivo que responde a la misma motivación. En ambas circunstancias, conviene enfatizarlo, vuestra agrupación ha demostrado un verdadero sentido de responsabilidad cooperando en la edificación de un Puerto Rico del cual todos nos sintamos orgullosos.

Deseo aprovechar esta ocasión para compartir con ustedes algunos de mis pensamientos sobre nuestra política

fiscal. Todos sabemos que quien desempeñe el cargo de Secretario de Hacienda no genera usualmente las mayores simpatías. Tampoco la generan tradicionalmente las Cámaras de Comercio, aunque es de justicia reconocer que la nuestra goza hoy de un bien merecido crédito y aprecio públicos. A fin de cuentas, el reconocimiento surge de la comprensión de la obra que se realiza, de la sinceridad y altura de propósitos que la anima y de la ausencia de prejuicios con que se ejecuta.

En el caso de la actividad de los hombres de empresa, de las instituciones privadas, los ciudadanos saben de antemano, como cosa natural, que han de pagar por los servicios que reciben. Los industriales y los comerciantes no son criticados porque cobren por sus servicios. Cuando se les critica es por otras razones, justificadas o no.

Sin embargo, muchos de esos ciudadanos no están conscientes de que los servicios públicos, al igual que los de índole privada, tienen un costo que alguien debe sufragar. Ellos exigen los servicios públicos y son ellos mismos, a través de sus representantes electos, quienes nos indican la manera en que su costo debe distribuirse entre la población. El Secretario de Hacienda, al actuar para obtener los medios pecuniarios que hacen posible rendir esos servicios, meramente acata la voluntad del pueblo. Las contribuciones, representan el grueso del precio que para tales fines debe satisfacer cualquier comunidad bien organizada.

En otras palabras, el propósito de los impuestos es, en esencia, distribuir el costo de los servicios públicos entre sus beneficiarios, según ciertos criterios que son aceptables por la mayoría de los ciudadanos.

Preguntamos, ahora ¿cuáles son las normas que determinan la distribución de la carga tributaria?

En primer lugar, en la medida de lo posible, el impuesto ha de establecerse de tal forma que no constituya una carga onerosa para el contribuyente y que éste pueda percatarse

sin dificultad de la razón que lo motiva y sus efectos. Al mismo tiempo, debe proveerse para que su administración se realice sin grandes complicaciones, a fin de facilitar al máximo las recaudaciones. Además, es aconsejable que sus repercusiones sean cuidadosamente ponderadas para evitar cualquier incidencia desfavorable sobre la actividad económica general.

En segundo lugar, el impuesto debe ser equitativo. El término "equitativo" tiene connotaciones distintas para cada persona. Tal vez, como individuos, creamos que el impuesto más equitativo es el que paga nuestro vecino. Para la comunidad, la equidad tributaria ha llegado a significar que, en términos generales, las contribuciones asignadas a los individuos deben guardar cierta relación con su habilidad para soportarlas. Es decir, las personas con ingresos más altos deben aportar un porcentaje más elevado de sus ingresos al Erario Público. Hemos tratado de estructurar nuestro sistema impositivo incorporandole dos principios: el de progresividad, por un lado, y el de conveniencia administrativa, por el otro. La contribución sobre ingresos constituye el mejor ejemplo de lo primero. Los arbitros reflejan lo segundo.

Desde luego, es necesario aceptar el hecho de que la equidad de cualquier impuesto depende esencialmente de nuestra habilidad para recaudarlo. Un impuesto que se evade con facilidad no tendría justificación alguna, aun cuando en teoría pudiera reputarse como el tributo más equitativo de todos.

Consideramos que la contribución sobre ingresos es el impuesto más justo con que contamos. Desafortunadamente, también es el más difícil de recaudar. A pesar de ello, su rendimiento está creciendo año tras año a un ritmo mayor que el de cualquier otro. En el año fiscal corriente, que termina el 30 de junio, esperamos que, por primera vez en nuestra historia, los cobros por concepto de esta

contribución habrán de exceder los recaudos de arbitrios. Por esta razón, tenemos el deber ineludible de revisar y simplificar la contribución sobre ingresos para que siempre esté en plena armonía con los objetivos de una sociedad cambiante y moderna como la nuestra.

Pero ¿estamos satisfechos con el sistema tributario establecido? Puedo asegurarles que nunca estaremos completamente satisfechos con ningún sistema en particular, porque eso conllevaría un estancamiento y una renuncia a ideas vivificadoras para nutrirlo y perfeccionarlo. Esto no quiere decir, de ninguna manera, que debamos derrumbar lo que hemos construido durante un periodo de muchos años, sino que debemos continuar creando, esforzándonos siempre por lograr algo mejor.

Nosotros, en el Departamento de Hacienda, estamos conscientes de la carga contributiva que pesa sobre gran parte de nuestros conciudadanos. Al mismo tiempo, no nos es ajeno el hecho de que muchas personas no están soportando la porción de la misma que realmente les corresponde. ¿Será que estas personas no contribuyen porque están evadiendo los impuestos o porque están exentos por disposiciones de ley? Consideremos separadamente cada uno de estos aspectos.

Cuando una persona evade un impuesto, deja de cumplir un mandato de ley y un compromiso moral de responsabilidad social, trasladando clandestinamente sobre los hombros de su vecino que sí cumple con su deber una injusta carga contributiva que habrá de añadirse a la que ya soporta. El evasor, sin embargo, no tiene empacho en recibir los servicios sociales que hacen posible las contribuciones que pagan sus compatriotas honestos. Quizá imagina que tales servicios son gratuitos. Tal vez presume que algunos no son necesarios, o que su prestación descansa sobre contribuciones discriminatorias que deben ser rechazadas por no dimanar de un principio "justo" o al menos razonable. En todo caso, y cualquiera que sea su moti-

vación, esa persona está transgrediendo una ley del país. Si no estuviera de acuerdo con la misma, debe ejercitar su derecho, recurriendo a los muchos expedientes del proceso democrático para lograr su derogación o modificación. Lo que es incomprensible, y no debe tolerarse, es que cualquier ciudadano pretenda ignorar una ley que cree injusta, actuando por su cuenta y evadiendo una responsabilidad que le fue impuesta por un gobierno libremente elegido por voluntad popular.

Por otro lado, las propias leyes pueden eximir de tributación ciertos ingresos o actividades. Existe una sola justificación básica para el otorgamiento de una exención contributiva, y ésta es, que el disfrute de tal medida habrá de alentar alguna actividad socialmente deseable que, de otra manera, sería inexistente o, por lo menos, poco desarrollada. Por eso creemos que la política de exención contributiva industrial se justifica en el sentido de que en su ausencia, la mayor parte de las nuevas empresas industriales no hubiera sido establecida. Pero esta filosofía tiene su contrapartida. Es sin la exención, ha llegado al momento de modificar nuestro enfoque, utilizando otras medidas para asegurar un crecimiento continuo en la base industrial del país.

Cada año surge un sinnúmero de propuestas para conceder nuevas exenciones, aunque escasísimas recomendaciones para crear nuevos impuestos o aumentar los ya existentes. Es una realidad que cuando estrechamos la base impositiva tenemos como alternativa que aumentar la carga aplicable a los sectores aún tributables, o disminuir los servicios públicos. Si recurrimos a la primera opción estamos alentando la evasión o la protesta porque los contribuyentes afectados asumen, que están soportando una carga más elevada que la que en justicia les corresponde. Si usamos la segunda, es decir, la de reducir los servicios públicos, estamos perjudicando a todo un pueblo, incluyendo a aquellas personas que se benefician con las nuevas exenciones.

La única política tributaria realmente sana descansa sobre una base tan ancha como sea posible, con tipos contributivos fijados a su mínimo nivel. En otras palabras, a mi juicio, es infinitamente más sabio fijar, por ejemplo, un tipo del uno por ciento sobre una base de $10 millones que un tipo del 10 por ciento sobre una base de $1 millón. Teóricamente, ambos tipos producirían el mismo ingreso, pero las apariencias son engañosas. Sin duda, la primera posibilidad rendiría mucho más que la segunda porque contribuiría a disipar eficazmente la evasión.

El objetivo único de las leyes contributivas debe ser el bienestar de la comunidad, así como el desarrollo económico, según dijera el Papa Juan XXIII en su Encíclica "Mater et Magistra", debe ir acompañado y proporcionado con el progreso social "a fin de que las desigualdades económico-sociales vayan desapareciendo", que es afán de ustedes señores de la Cámara de Comercio y de nosotros los hombres del Gobierno. Por otro lado, una reforma tributaria es un proceso lento que requiere estudio continuo para determinar las metas específicas a las cuales aspiramos. Y que después de fijarlas hay que encontrar la senda más adecuada para tales objetivos. Además, de vez en cuando es necesario cambiar las metas para tomar en cuenta los cambios que ocurren en el desarrollo de la economía. La ciencia de tributación no se base en principios rígidos sino en reglas flexibles, sujetas a modificaciones pragmáticas.

Surge ahora una pregunta sobre la cual todos deseamos una respuesta. ¿Cuál es el rumbo que en los años venideros tomará la tributación en Puerto Rico? Según mi criterio, deberemos mantener los aspectos más sólidos del sistema actual, aunque sin renunciar en modo alguno a la búsqueda de innovaciones que puedan fortalecerlo. Nuestra tarea es combinar razonablemente las características deseables que hemos conservado hasta el presente con nuevos métodos impositivos aún no probados cabalmente en Puerto Rico.

El Departamento de Hacienda está estudiando cuidadosamente varias alternativas conducentes a ampliar significativamente la base tributable, de forma que pueda reducirse la magnitud de muchos de los tipos vigentes. Un ejemplo ilustrativo de como expandir la base, disminuyendo los tipos aplicables a la misma, podemos apreciarlo en el cambio efectuado en la tributación sobre artículos de joyería, promulgada el año pasado. Por cierto, fue esta misma Cámara de Comercio la que auspició tal medida a la cual le prestamos toda nuestra cooperación. Mediante esa legislación, las tasas impositivas se redujeron a menos de la mitad de su nivel anterior y los recaudos han superado a los de años previos, aunque no han alcanzado las cuantías esperadas. Estoy convencido de que cuando el contribuyente aprecia a cabalidad que un impuesto semejante abarata los precios, las recaudaciones aumentarán considerablemente.

Es verdaderamente importante en cualquier clase de impuesto que el contribuyente conozca con exactitud lo que realmente aporta el Erario. Generalmente no lo sabe y parece que tampoco se esfuerza por saberlo. Francamente, no entiendo esta actitud.

Indudablemente, existen casos donde la aplicación de un arbitrio posee ventajas indiscutibles sobre cualquier otro tipo de impuesto que grave el uso o consumo de un artículo. Los ejemplos más sobresalientes corresponden a la gasolina, a las bebidas alcohólicas y a los cigarrillos. Estos productos son gravados por un arbitrio al nivel del productor, lo que facilita enormemente su administración. Empero, el consumidor está consciente de que está pagando un arbitrio y su cuantía a diferencia de los casos en que, por estar oculto, el tributo no se identifica.

Reflexionemos sobre la conveniencia de utilizar un más equilibrado sistema tributario, introduciendo distintos instrumentos fiscales que, combinados con los actuales, distribuyen más armónicamente la carga resultante y acele-

ren el crecimiento ininterrumpido de nuestro progreso. El propósito no es gravar excesivamente a ningún sector de la economía del país, sino que todos contribuyamos, en la medida de nuestras capacidades, para sufragar los proyectos públicos que automáticamente redundan en nuestro propio beneficio.

Desde luego, estas aspiraciones para el futuro no deben interferir con las tareas del momento. En los próximos dos meses tendremos que dedicar gran parte de nuestros esfuerzos a la recaudación de la contribución sobre ingresos. Cada día que pasa entendemos mejor la significación de este concepto, que ya hasta se expresa con música y canciones, cuando en otras partes del mundo podría provocar golpes de estado. Por eso, estoy seguro que los cobros aumentarán elocuentemente este año, en virtud de la campaña amorosa que estamos llevando a cabo. No es difícil saber porqué digo "amorosa". Después de todo, el amor conlleva la connotación de que es necesario dar para recibir. En ese sentido, si queremos recibir las bienandanzas de los imprescindibles servicios públicos tenemos que contribuir. Este es el significado de la tributación, el cual es prácticamente idéntico al significado del amor. Por lo tanto, usaremos cariño al recaudar las contribuciones aunque tal vez tendremos también que emplear cierta severidad "cariñosa" al disciplinar a las personas que no cumplan con su deber. En fin, queremos que todo puertorriqueño se identifique con el progreso y con el desarrollo de la civilización y de la cultura de su país.

Muchas gracias, señores de la Cámara de Comercio, por el honor que me habéis otorgado; muchas gracias, amigos todos, por haberme escuchado con benevolencia.

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Address by the Hon. Secretary of the Treasury, Mr. Jorge Font Saldaña, before the Puerto Rican Chapter of the National Association of Accountants, August 4, 1965.

Mr. Chairman, distinguished guests, ladies and gentlemen:

I wish to thank you for your kind invitation to be with you tonight. Although I am not an accountant I am in charge of a tremendous accounting complex—the Department of the Treasury—so I am acquainted with some of the problems that you encounter in your everyday work. From my own experience I know that governmental policy on expenditures and revenues in one of the areas that most intimately affects you as accountants. Therefore, I think it might be appropriate to speak to you this evening on some of the basic aspects of the fiscal policy of the Commonwealth of Puerto Rico.

First of all, what do we mean by governmental fiscal policy? Without entering into a textbook definition of the term I think it may be said that fiscal policy is a tool by which a government adjusts its budgetary receipts to meet its expenditures, adjusts its expenditures to meet the needs of its people, and adjusts both its budgetary receipts and expenditures to give some kind of direction to the economy.

Now then, I don't think there can be anything controversial about the first objective—that of adjusting receipts to expenditures. Our Constitution specifically provides that budgetary appropriations for any one year may not exceed calculated resources for that year. That is, we are prohibited from deliberately incurring a budgetary deficit. On the other hand, the manner in which we raise the neces-

sary revenues to meet these expenses is, and should be, subject to considerable debate.

The second objective—adjusting the expenditures to meet the needs of the people—is clearly controversial. Who is to say just what are the needs of the people? There will always be disagreement on the specific governmental programs that may be adopted, not only in the content of such programs but also in the amount of money assigned to each one. In the last instance, we have to say that the people, themselves, must make the determination through the officials they elect.

The third objective—adjusting receipts and expenditures to give direction to the economy—is the most controversial. In essence, this objective embraces the whole concept of central planning. With respect to receipts, the concern here is not so much with the absolute quantity but with the composition. In this sense, the purpose of taxes, which are the most important item of government receipts, is not only to raise revenues but to encourage different types of economic activity as well as to redistribute income among the various groups of our economy. With respect to expenditures, we are more concerned with the long run aspects rather than with the short run. Government policy is used to affect private as well as public expenditures. Various devices are used to encourage investment in one field and to discourage investment in another. Governmental power is used to a certain extent to mold and shape the economy to accomplish certain objectives which, in themselves, may be quite controversial, although it must be assumed that the majority of the people concur with such objectives.

We shall all agree that certain governmental revenues and expenditures are absolutely necessary. Otherwise we would have a state of anarchy. But why should the government take it upon itself to give direction to the economy? After all, for each dollar that you or I give to the govern-

ment, our own purchasing power is reduced by one dollar. Should not we, as individuals, have the right to decide for ourselves how to use our own money?

But is our own purchasing power really reduced when we give part of our income to the government? Perhaps it is reduced in the shot-run but in the long-run it is definitely increased. In reality, the money we pay in taxes is used to provide more public facilities and services, whose fundamental purpose is to make it possible for us to acquire more income. In Puerto Rico about 16 cents of every dollar of income are paid out in taxes. In contrast, about 33 cents of every dollar of income in the United States are paid in taxes. And the United States has the highest per-capita income in the world (excluding, of course, such nature enriched countries as Kuwait where foreign oil companies are only too happy to provide the government with more revenues than it knows what to do with).

I think most of us in the Commonwealth Government would prefer to leave as many of the decisions as possible for spending money in the hands of individuals. We believe in free enterprise although naturally we do not accept the principle of laissez-faire because such a system is incompatible with a goal of increasing the income of the community. At the same time, it must be recognized that the role of the central government in making decisions for spending money is, in fact, growing. It is growing because these decisions have been forced upon the Government by technology and an expanding population. During the past century the world's technology has been revolutionized. Modern system of transportation and communications have brought people closer together. As people are drawn closer together they must use more things in common. They need more public facilities. Furthermore, people are made more aware of the needs of their fellow beings. The more fortunate realize that it is in their own best interest to assist

the less fortunate in some way. But here again, any concerted and effective effort requires organization and planning as well as vast sums of money, all of which invite governmental action.

"Operation Bootstrap", the plan by which Puerto Rico has been transformed in the last two decades, has had the effect of creating industry and diversifying the economy. There is no doubt that the less fortunate have been helped by this program but, more than that, it has helped all. It is a classic example of fiscal policy in action. You only have to observe the conditions in Puerto Rico today and compare them with the conditions of 25 years ago. I have not forgotten the hopelessness expressed in a song of that era "Lamento Borincano", where the small farmer would come to the city early in the morning, hoping to sell his produce, but would leave at night with the same produce because the city folk did not have the means to buy it at any price.

In other words, in so far as we can attribute our progress in the last 25 years to "Operation Bootstrap" we can attribute it to fiscal policy. I should stress that fiscal policy may be used by government in different ways. It may be used to regiment society, in which people are merely the toys of those who rule, or it may be used to give a general direction to the economy while, at the same time, it places its maximum emphasis in individual freedom of action. In Puerto Rico, we believe we have chosen the latter course.

Now then, what part do I, as Secretary of the Treasury, play in the fiscal policy of the Commonwealth Government? My basic responsibility is not so much with the determination of the expenditures, themselves, but in raising the necessary revenues to meet such expenditures. I think it is important to underscore the difference in the two functions. The Secretary of the Treasury is often depicted as a villain, simply because one of his functions is that of a tax collector. But he is merely making sure that the Government has the

financial capacity to carry out its programs. Without such financial capacity there would be no programs. Too often we tend to forget that public services and public improvements cost money. Someone has to pay for them. This is the origin of taxes. A tax system is nothing more than a means of distributing the cost of government among the people.

In fiscal year 1965 revenues from internal taxes of the Commonwealth Government amounted to slightly more than $300 million, or about $120 per-capita. My job would have been so simple if we could have required that each man, woman and child on the Island contribute $120 as his direct share of the costs of Government, not including the revenues the Government raises by other means. That would be one way of distributing the costs although it woud be highly inequitable and totally impractical. Another method would be to collect the costs on the basis of the services rendered. For example, the Government could publish a list of prices for various services and collect upon rendering the services. This also would be wholly impractical.

Our only alternative is to distribute the costs among the entire population according to certain reasonable criteria. The tax system is nothing more than a means for accomplishing this purpose. There is no rule—no guiding light—to tell us how the tax burden should be distributed. That is where fiscal policy enters the picture. If we know the basic objectives we are striving for, we can use the tax system as a catalyst in the attainment of such objectives. In Puerto Rico, during the past 25 years we have achieved a basic redistribution of the tax burden, which formerly rested much more heavily on the lower income groups.

The most fundamental of all our objectives is an improved standard of living for all our people. It is a goal that we have reached in relative terms year after year,

but one which we can never reach in absolute terms. We never hope to reach the point where we have all we want and can ask no more, because then we would stagnate. But I don't believe we have to concern ourselves with that possibility in Puerto Rico. Although our per-capita income rose from $121 in 1940 to $830 in 1964, it was nevertheless only one-third of the per-capita income of the United States in that year. We still have a long road to travel and a heavy load to bear. That load is much easier to bear when we all contribute to the extent we are able.

The bulk of our tax revenues is derived from excise taxes and income taxes. The goals of fiscal policy are clearly evident in the structure of both.

It is true that excise taxes incorporate the features of convenience and facility of administration. However, considerable care must be used to insure that these taxes are in harmony with our long-run objectives. Machinery and raw materials used in production are necessarily exempt since their taxation would only serve to restrict our economic growth. In like manner, all items which may be considered as "necessities" are exempt.

If this is so why, you may ask, do we have such heavy taxes on automobiles? Are they not also "necessities"? My answer to that would be that an adequate means of public transportation is a necessity but automobiles, in and of themselves, cannot be considered necessities.

However, if an automobile is not an absolute necessity it can be reasonably argued that it is very close to a necessity. Does it not then follow that automobiles should bear lower taxes than many items which are far less essential? In this connection it should be pointed out that while the tax on automobiles is high it incorporates a "progressive" feature so that the less expensive automobiles pay much lower taxes than the luxurious ones.

Personally, I would say that the form of taxation of automobiles should be revised and, in fact, our Department

is now making a thorough study of the problem with a goal of redistributing the tax burden. In our judgment, one of our most urgent problems is to fundamentally modify the automobile license system which, in its present form, does not achieve the ends for which it was created.

On the other hand, we must bear in mind that we do not produce automobiles. Their purchase by Puerto Ricans represents a drainage of resources from our economy. Furthermore, we don't have enough highway facilities to handle all the automobiles that are introduced year after year. Finally, if we reduced the tax burden of automobiles, we would have to find an alternative source of revenues. There is no doubt that a reduction of taxes would be welcomed by automobile owners, but the individuals who don't own automobiles might put up a strong objection if we transferred that part of the burden to them. As you can see, there is no easy solution to the problem.

The most important remaining excise taxes are applied to cigarettes and alcoholic beverages. The taxes are extremely regressive in the sense that they are much more burdensome to the poor than to the rich. However, since cigarettes and alcoholic beverages are not exactly indispensable to one's health, the taxes can be easily avoided by anyone if he neither drinks or smokes.

There are, however, certain aspects of fiscal policy relating to ability to pay that are especially emphasized in our excise tax law. In order to reduce the burden on our poorer citizens as much as possible we have eliminated the excise tax on certain articles of general utility. Thus, refrigerators, stoves, radios and television sets with a factory cost below stipulated figures are exempt.

The intricate designs of fiscal policy are also clearly evident in the income tax, which is constantly growing in importance and, within two or three years, should replace excise taxes as the leading source of Commonwealth revenues. Philosophically, we consider the income tax as the

fairest means of collecting revenue because it is progressive. It is an accepted principle that persons with higher incomes should contribute a greater proportion of their income in support of their government than those with lower incomes. This is so because we do not feel that one earns his income exclusively through his own efforts. He needs the help of the community. Our development program, whose basic objective has been to create employment and income for the poor, has had the indirect effect of raising the incomes of the affluent members of society even more than proportionately. Is it not then only just that they contribute a greater proportion of their income in taxes?

In theory, the taxation of income seems like the ideal means for raising government revenues. If everyone with a given income voluntarily paid exactly what he should, we would have no problems. But it is not quite that easy. The administration of the income tax is far more difficult than the administration of any other tax at our disposal. One reason is that the taxpayer, himself, determines the applicable tax and, in such a case, there is always a strong temptation to evade if at all possible. Secondly, it is not always easy to determine exactly what a person's income is specially if he works for himself. It is an accepted principle that expenses incurred in the production of income should be deductible but there is often an honest difference of opinion as to what constitutes an expense in the production of income. Finally, the law is exceedingly complex. There is a tendency for complex laws to contain a number of loopholes which permit the more imaginative individuals to use these provisions in their own interest. This discriminates against those who may not be wholly familiar with the loopholes as well as against those who do not have such loopholes available to them. Of course, when the loopholes are obvious we try to close them but in so doing we often create other ones to take their place.

Yes, the taxation of income is complex—perhaps too complex. We should be giving serious consideration to

simplyfying this form of taxation as much as possible. But this involved long range planning. We cannot cure the imperfections of the system overnight.

Be that as it may, we always have the obligation to enforce the law as it is written, whether or not we agree with each and everyone of its provisions. There is specially no room for laxity in the enforcement of the income tax law because the amount of the tax applicable to each individual can represent such a significant part of the total taxes he pays. The income tax was designed to be our most equitable tax but it becomes the most inequitable tax if some pay their full share while others evade it with impunity. In recent years steps have been taken to almost preclude the possibility of evasion by salaried persons. This means we have a responsibility towards these persons. We have to be sure that they are not paying more than their rightful share of the burden. We are constantly intensifying our enforcement techniques and we shall not rest in this effort. To accomplish our objectives it is imperative that all our citizens realize that public facilities are built for *them* and that these facilities have a price in the same manner that goods acquired in the market place have a price.

We are making progress to the extent that our citizens are now much more aware of their social responsibilities. Nevertheless, we are still faced with substantial evasion. And intentional tax evasion is, in my judgment, one of the most heinous crimes that anyone can commit.

Evasion is most common among self-employed individuals. We find professionals and other groups at both ends of the income ladder playing with this deadly fire. As an example, we have one particular moderate-income group, numbering more than 20,000 individuals, of whom it is safe to say that the overwhelming majority have a gross income of no less than $2,000. In other words, practically all (if not all) of these persons have sufficient income to be obligated to file an income tax return, whe-

ther or not they have taxable income. For that reason I was amazed to discover that in 1963 only 47 members of this group filed income tax returns. We cannot sit by idly while these people scoff at our income tax laws.

At the other end, we have some very prominent citizens that defraud the public treasury either by not filing income tax returns or if they do file, they hide income or inflate deductions.

In both these cases the individuals involved do not realize that not only is their behavior detrimental to society it is detrimental to their own interests.

Why do we not proceed more vigorously against these criminals who are robbing you and me just as surely as the vilest thief that stalks the street by night? We are, in fact, taking steps to overcome the chief obstacles in our path.

We recognize that we need highly trained professionals to work as income tax inspectors. We are intensifying our efforts to improve salaries and working conditions of our personnel so that we can recruit a greater number of competent accountants who will have an incentive to embark on a career as income tax inspectors. By so doing, we hope to discourage otherwise honest citizens from income tax evasion.

Nevertheless, our efforts will not be entirely successful until we have convinced all our citizens that income tax evasion is an odious crime. There are so many of us who would not hesitate to demand the imprisonment of the street thief, who robs us of $100, whereas we are satisfied to excuse the income tax evader, who robs us of $10,000, after he pays only a small fine. How can we have a fair and equitable tax system if we do not demand comparable justice for the tax evader?

Perhaps we would do well to observe how income tax evasion is treated in the United States. There, we know

of several cases of high government officials, including congressmen, being imprisoned for tax evasion. A prominent Washington physician was sent to jail for tax evasion, despite the pleas of his patients that his services we badly needed in the community. Just two years ago the former dean of the Harvard Law School was imprisoned and suspended from the practice of law for income tax evasion. And then we have two interesting cases in Ohio where the Bar Association took court action against prominent Ohio lawyers, not for evasion itself, but for the failure to file income tax returns. As a result, these lawyers were suspended from practice for an indefinite period of time, in addition to paying the heavy fines that had been previously imposed. Of course, there are also cases of prominent people in the United States escaping with fines but usually the fines are high enough to discourage evasion. In any event people in the United States have a profound respect for the income tax law. Our goal is to develop at least equal respect for the income tax laws in Puerto Rico.

Despite its many headaches the income tax includes one exceptional feature that is absent in most of our taxes. That feature is tax consciousness. When you pay the income tax you know you are paying a tax. On the other hand, when you buy a rug, a vacuum cleaner, a bottle of beer or any one of dozens of other items subject to an excise tax, you may not be aware that you are paying a tax. Is is hidden in the price of the good. That is "painless" taxpaying. Unfortunately, however, "painless" taxpaying is not in harmony with a spirit of community development. One should know exactly how much he is paying for the community services he receives. He should know when he is paying a tax and when he is not. The community benefits when each of its members is conscious of the part he pays in financing its services. For these reasons, the relative importance of the income tax and other forms of direct taxation can be expected to increase in the coming years.

Since income tax rates are progressive it may be seen that part of our policy objectives is the redistribution of income. On the other hand, we have one tax whose sole objective is the redistribution of income and that is, the inheritance and gift tax. Last year we derived slightly more than $3 million from this tax so that it is obvious that it plays an insignificant role in the raising of revenues. Our present law was enacted in 1946 and we believe it is now outdated. Therefore, we are drafting new legislation which we plan on presenting to the Legislature during the next regular session. Despite the changes that may be recommended the new law will have the same basic objective as the old. That is, it will be aimed at preventing the undue concentration of wealth in Puerto Rico, with revenue a purely secondary consideration.

I cannot terminate my discussion of fiscal policy without saying a word about the use of debt. Currently we obtain approximately 10 per cent of our budgetary requirements from bonds. But bonds must eventually be redeemed from our other resources or, in effect, from taxes. Thus, the issuance of bonds is really only delayed taxation. Sooner or later the bulk of our resources must come from taxation. Why, then, do we incur in debt? To answer that we must bear in mind that debt can only be used to finance long-term capital improvements. These capital improvements benefit not only the present generation but future generations as well. Therefore, it is only just that these future generations share in the costs of the improvements.

Of course, it should be mentioned that without the use of bonds many of our public improvement expenditures would be impossible because otherwise we just wouldn't have enough funds. Nevertheless, it must be emphasized that debt may only be used in limited amounts, subject to a constitutional formula. We cannot forget that our internal revenues, which are mostly derived from taxation, form the base upon which we can issue bonds in the first place.

Now then a question that must be foremost in the minds of many of you here tonight relates to the recent reduction of income and excise taxes in the United States. Should not we, in Puerto Rico, also be thinking in terms of tax reduction as a complementary measure? The answer to that depends on the kind and quality of public services we wish. It should be pointed out that even with the tax cut the resident of the United States still has to pay a far higher percentage of his income in taxes than his Puerto Rican counterpart. On the other hand, the United States can maintain its expenditures even after a tax cut, because any deficit incurred can be financed through the use of debt. In our case there is a rigid constitutional debt limit based on internal revenues. Therefore, if our resources fall we are obligated to cut down on our expenditures. This means that if we wish to reduce our taxes we must be willing to reduce proportionately the public services. However, the changes that may be made in our public services are not for me to decide. Only our Legislature can decide that. I merely try to help in the financing of the programs that are adopted. As long as it is believed that improved public services are necessary I think a general tax cut is out of the question, although that does not mean changes will not be recommended in specific cases.

This evening I have briefly outlined some of the points which I consider important in our fiscal policy. I have given particular emphasis to the income tax and its enforcement, not only because I believe it is the area that merits the greatest emphasis, but also because you, as accountants, probably deal more with this aspect of fiscal policy than with any other. If that is so, there is much you can do to help us in our efforts to eliminate evasion and make the law more meaningful and equitable. Help us to make the law serve the people for whom it was created—the people of Puerto Rico.

Thank you very much.

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